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SUBJECT: TURKEY-IRAN TRADE WOES; RAFSANJANI FAMILY AND BUSINESS ALLIES UNDER PRESSURE

REF: (A) 2009 ISTANBUL 425 (B) 2009 ISTANBUL 336

Classified By: ConGen Istanbul Deputy Principal Officer Win Dayton;
Reason 1.5 (d).

¶11. (C) Summary: A Turkish business executive who deals with Iran's transportation and tourism sectors told us his pro-Rafsanjani partners are under great pressure from the regime. Two Iranian company CEOs told him their company books were audited for ties to Rafsanjani and state banks are denying them credit. Our contact shared several anecdotes revealing the difficulties of doing business with Iran, including an attempt by a leading Ayatollah on Iran's Guardian Council to ask for a 350 million Euro bribe to sell BMW distribution rights in Iran to a Turkish company, and an offer by Iran's Tourism Ministry-equivalent to sell a Tehran hotel to an Istanbul hotel group despite a possible lawsuit against the hotel. Our contact noted that dropping levels of Turkey-Iran trade reflect not only the global slowdown but also rising concerns about the polarized political climate in Iran and possibility of further western sanctions. He acknowledged that Turkey will always need to import Iranian natural gas and predicted that the Turkish government will continue to speak warmly about the benefits of neighborly trade with Iran, but most of the Turkish companies our contact works with now approach Iran with a high degree of caution. End summary.

¶12. (C) We met January 20 with an Executive Board member of the Turkey-Iran Business Council (TIBC) who is responsible for advising the TIBC on promoting trade with Iran in the sectors of transportation and tourism. This contact had recently returned from a visit to Tehran and offered to share some observations about Turkey-Iran trade, as well as internal developments in Iran.

Rafsanjani and Family Under Pressure

¶13. (C) While in Iran our contact says he met with the CEOs of two private sector companies that are close to the Rafsanjani family: Kerman Khodro (an automotive company), and Mahan air (an aviation company), as well as with Hossein Marashi, a former Iranian Vice President for Tourism. Our contact claimed that these three interlocutors are close to former Iranian President Rafsanjani, and indeed that Marashi's wife is Rafsanjani's cousin.

¶14. (C) Those interlocutors reportedly told our contact that Rafsanjani, his family, and his businesses are under intense pressure from the regime. Our contact was told that Rafsanjani spent most of December and January in Mashhad rather than Tehran, under the protection of Ayatollah Abbas Vaez-Tabassi (a member of both the Expediency Council and Assembly of Experts, both of which Rafsanjani chairs).

Rafsanjani reportedly believed that taking refuge in Mashhad he would be safer from possible regime action against him, benefiting from a Persian Islamic tradition granting protection to anyone taking refuge in a mosque. (Comment: Press accounts confirmed Rafsanjani's presence in Tehran at least on January 23, when he gave a conciliatory speech to the Expediency Council advising them that Supreme Leader Khamenei was "the most advisable" person to lead Iran out of its current crisis. Rafsanjani's remarks followed a January 19 speech by Khamenei warning "Iran's elites" that they could no longer stay silent in the face of opposition protests, a warning that many observers concluded was intended for Rafsanjani. End comment.)

¶5. (C) Rafsanjani's family is also under great strain, our contact was told. The most politically active of his five children -- son Mehdi and daughter Faezeh -- face a constant threat of prosecution. Mehdi remains in London, waiting to see whether Iran's Prosecutor General Gholamhosein Ejei carries through with a threat to prosecute him on corruption charges. Faezeh was arrested on June 20 but released shortly thereafter. Still in Iran, she reportedly continues to support the opposition movement but she no longer ventures out in public for fear of being assassinated by regime agents, as opposition leader Mousavi's nephew recently was. She has turned down opportunities to leave Iran for Europe or the U.S. (Comment: An Istanbul-based representative for a U.S. NGO who is in direct email communication with Faezeh confirmed to us that she has been invited to travel to the United States, France, and the United Kingdom but declined for fear that she would either be arrested at the airport, or if allowed to depart it would further undercut her father's vulnerable position. End comment.)

Rafsanjani-linked companies being targeted

¶6. (C) The CEOs of Kerman Khodro and Mahan Air reportedly told our contact that they are being commercially and financially squeezed by the regime. The regime has directed the Ministry of Economy's audit organization to investigate the accounting records of both companies, reportedly looking for evidence that Rafsanjani or his family members were skimming funds from either company. However, both companies' CEOs reportedly told our contact that there was no paper trail officially linking the companies to Rafsanjani, and that the audits found no evidence of corrupt practices. Even so, both companies are finding it increasingly difficult to obtain lines of credit from Iranian state-run banks, and have concluded that the banks were ordered not to provide them any credit.

Automotive woes

¶7. (C) In Kerman Khodro's case, this pressure from the regime has combined with decreasing automotive demand, both domestic and for export, and resulted in near shut-downs of many of their production lines. Our contact accompanied the CEO to an automotive production line in Bam and found it at a stand-still. He said the CEO was desperate for more automotive orders and project investment from Turkey and elsewhere, but he also believed the regime was intentionally steering Turkey and other investors away from Kerman Khodro in favor of state-run automotive producers like Iran Khodro and SAIPA. (Comment: That claim tracks with the recent visit by Iranian Ambassador to Turkey Hossein Bahmanpour to Bursa, the car-making center of Turkey, to meet with the mayor and industry representatives to promote more Turkish cooperation with Iran's state-owned automotive companies.)

¶8. (C) Our contact related a case in which another TIBC Executive Board Member recently traveled to Iran to try to negotiate a deal to sell BMW cars in Iran, representing Turkey's Borusan Automotive Group (which has been the exclusive distributor of BMW Group vehicles in Turkey since 1984). According to our contact, his TIBC colleague was told

that any deal to allow Borusan to sell BMWs in Iran had to be approved by a leading Ayatollah on Iran's Guardian Council, who had a controlling interest in Iran's Persian Khodro company, the current exclusive BMW dealer in Iran. (Comment: Our contact did not identify the Ayatollah, but from his description of the Ayatollah's position, wealth, influence, and reputation for corruption, it may have been either Guardian Council President Ayatollah Jannati or Ayatollah Mohammed Yazdi. End comment.) In a separate transaction unrelated to the BMW deal, the TIBC executive was informed that the same Ayatollah was said to have borrowed 350 million Euros from a government account and never paid it back. Given the Ayatollah's importance as a key supporter of the Supreme Leader, Khamenei told the Ayatollah that he would be protected from prosecution but he must eventually pay the funds back. When the TIBC executive met the Ayatollah's representatives to discuss a deal to sell BMWs in Iran, he was told Borusan could have the exclusive contract to sell BMWs in Iran for a price of 350 million Euros. The TIBC executive declined.

¶19. (C) The challenges of Turkish automotive trade with Iran are exacerbated by the risk of running afoul of U.S. economic sanctions on Iran, our contact told us. He cited a possible deal that he was negotiating recently to sell 300 "4x2" light pick-up trucks manufactured by Ford Turkey (a subsidiary of Ford USA) to Kerman Khodro, for about USD 10 million USD. Although the trucks were manufactured in Turkey by a company incorporated in Turkey, Ford Turkey's lawyers advised the management not to pursue the deal, our contact told us, because of the risk of skirting the U.S. Treasury OFAC restrictions on trade to Iran, as well as reputational risk if the trucks were then used by the Iranian security forces.

¶10. (C) Our contact further revealed that he had served as the middleman on a request from an Iranian entity to the TIBC to purchase 30 Caterpillar diesel generator sets at a cost of USD one million each. When the TIBC learned that the request came from an Islamic Revolutionary Guard Corps (IRGC)-owned entity, it declined. The Iranian entity's response was that it could just as easily buy the generators from Dubai.

Investment Challenges

¶11. (C) Our contact revealed that the main purpose of his visit to Iran was to investigate a possible deal that Iran's Cultural Heritage and Tourism Organization (ICHTO), which owns and manages a leading hotel in Tehran (NFI), had offered to a Turkish hotel management group including the management teams of Istanbul's Four Seasons hotel and Greenpark hotels. ICHTO had reportedly offered to sell the hotel property for USD 80 million. The Istanbul-based hoteliers asked our contact to inspect the property and meet with ICHTO officials and hotel management. While in Tehran our contact says he learned that only 75 percent of the property is actually owned by ICHTO, with 24 percent owned by an Iranian family living in the United States who have reportedly filed a legal claim against Iran. Our contact says he confronted ICHTO Director Hamid Baqaei with this information, but Baqaei denied there was any outstanding legal claim against the hotel. Our contact told us that he had informed the Istanbul hoteliers that the legal risk was too great to recommend investing in the hotel.

¶12. (C) Adding to the difficulty of pursuing property investments in Iran is the complicated bureaucracy involved, our contact explained. Foreign investments are not covered by any single Iranian law but by a maze of sometimes conflicting laws and regulations. To invest in a state-owned hotel property, for example, an investor must secure the management concession from ICHTO, separate operating licenses from provincial and municipal authorities, and negotiate separate import tariff agreements with customs authorities, bribing officials at every level along the way. "It's not worth it." He says he told ICHTO Director Baqaei that if Iran really wants to attract western investment, it must

first simply and harmonize the laws and regulations governing such investments.

¶13. (C) To address Turkish business's concerns at the challenges of trade and investment with Iran, our contact told us that Iranian Vice President Rahimi, visiting Istanbul January 25-28 to attend a Turkish-hosted Summit on Afghanistan, had agreed to make his deputy Ali Agha-Mohammadi available to meet with Turkish business representatives on January 28. (Comment: According to TIBC's website, Turkish businesses willing to pay a 50 lira/35 USD entrance fee were invited to meet with Ali Mohammadi, described as "the assistant to Iran's First Vice President", to ask any questions and lodge any concerns about trade with Iran. The TIBC website noted that Mohammadi would be accompanied by "a group of Iranian bureaucrats." We will ask our contact and other TIBC contacts for a readout of that meeting.)

¶14. (C) Asked about the near-term future of Turkey-Iran bilateral trade, our contact pointed out that trade volume had dropped significantly in 2009 compared to the previous year, reflecting not only the global slowdown and falling oil prices, but also decreasing Turkish demand for Iranian gas and rising concerns by Turkish investors about the risks and difficulties of trading with or investing in Iran. The polarized political climate in Iran adds to the risk, as Turkish investors are afraid to make deals with Iranian companies that are themselves on the wrong side of the political fence. Our contact acknowledged that Turkey will have a long-term need for at least several billion dollars per years of Iranian natural gas, and predicted that the Turkish government will continue to speak glowingly about the importance of close economic links between the neighbors, but most of the Turkish companies our contact works with will approach Iran with a rising degree of caution.

Comments

¶15. (C) While we cannot independently assess our contact's claims about the information gleaned from his Iranian interlocutors, his role as a leading executive on the TIBC would certainly give him access to Iranian company CEOs and ranking government officials like ICHTO director Baqaei.

¶16. (C) Our contact's insights into the degree of pressure that Rafsanjani and his family and business interests are under pressure ring true, and are consistent with observations that have been reported in the press. Whether Rafsanjani can weather this storm, however, may be a question that is increasingly less relevant to the future of the regime. The prevailing view among our contacts (including this one) is that Rafsanjani -- though still a key player if one looks at a regime organizational chart -- is a figure of fading influence on the ground. After a career marked by Machiavellian politics and personal enrichment, he is trusted

neither by the regime's hard-core supporters nor by the opposition leaders or movement. As our contact told us, his associates have the sinking feeling that he is "playing his final hand, and playing it weakly."

¶17. (C) Our contact's expressions of frustration over the difficulties of doing business with Iran also ring true, and track with previous insights he and other commercial contacts have shared. We agree with his assessment, however, that even if it makes little sense for Turkish businesses to trade with or invest in Iran, both governments will continue to promote the bilateral trade relationship. End comments.

WIENER